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**UTILITY
PATENT APPLICATION
TRANSMITTAL**

(Only for new nonprovisional applications under 37 C.F.R. § 1.53(b))

Attorney Docket No. 0326-136A

First Inventor or Application Identifier Stephen G. Bodurtha, et al.

Title SECURITY RECEIPTS MANAGEMENT SYSTEM

Express Mail Label No. RB53472682X

APPLICATION ELEMENTS

See MPEP chapter 600 concerning utility patent application contents.

ADDRESS TO:Assistant Commissioner for Patents
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- 1.
- ☒
- Fee Transmittal Form (e.g., PTO/SB/17)
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- 2.
- ☒
- Specification [Total Pages 17]
-
- (preferred arrangement set forth below)
-
- Descriptive title of the Invention
-
- Cross References to Related Applications
-
- Statement Regarding Fed sponsored R & D
-
- Reference to Microfiche Appendix

- Background of the Invention
-
- Brief Summary of the Invention
-
- Brief Description of the Drawings (if filed)
-
- Detailed Description
-
- Claim(s)
-
- Abstract of the Disclosure

- 3.
- ☒
- Drawing(s) (35 U.S.C. 113) [Total Sheets 8]

4. Oath or Declaration [Total Pages 2]

- a.
- ☒
- Newly executed (original or copy)
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- b.
- ☐
- Copy from a prior application (37 C.F.R. § 1.63(d))
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- (for continuation/divisional with Box 16 completed)
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- i.
- ☐
- DELETION OF INVENTOR(S)
-
- Signed statement attached deleting
-
- inventor(s) named in the prior application,
-
- see 37 C.F.R. §§ 1.63(d)(2) and 1.33(b).

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- 5.
- ☐
- Microfiche Computer Program (Appendix)
-
6. Nucleotide and/or Amino Acid Sequence Submission
-
- (if applicable, all necessary)
-
- a.
- ☐
- Computer Readable Copy
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- b.
- ☐
- Paper Copy (identical to computer copy)
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- c.
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- Statement verifying identity of above copies

ACCOMPANYING APPLICATION PARTS

- 7.
- ☒
- Assignment Papers (cover sheet & document(s))
-
- 8.
- ☐
- 37 C.F.R. § 3.73(b) Statement
- ☒
- Power of Attorney
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- (when there is an assignee)
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- 9.
- ☐
- English Translation Document (if applicable)
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- 10.
- ☒
- Information Disclosure Statement (IDS)/PTO-1449
- ☒
- Copies of IDS Citations
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- Preliminary Amendment
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- ☒
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- * Small Entity Statement filed in prior application,
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- Statement(s)
- ☐
- Status still proper and desired
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-
- 14.
- ☐
- Certified Copy of Priority Document(s)
-
- (if foreign priority is claimed)
-
- 15.
- ☒
- Other: Based on Provisional Application No. 60/145,730, filed on July 27, 1999

16. If a CONTINUING APPLICATION, check appropriate box, and supply the requisite information below and in a preliminary amendment:☐ Continuation ☐ Divisional ☐ Continuation-in-part (CIP) of prior application No. _____

Prior application information: Examiner _____ Group / Art Unit: _____

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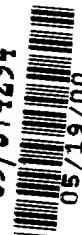
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TRANSMITTAL FORM (to be used for all correspondence after initial filing)	Application Number	NEW APPLICATION	
	Filing Date		
	First Named Inventor	Stephen G. Bodurtha, et al.	
	Group Art Unit	N/A	
	Examiner Name	N/A	
Total Number of Pages in This Submission	323	Attorney Docket Number	0326-136A

U.S. PTO
09/574294



ENCLOSURES (check all that apply)		
<input type="checkbox"/> Fee Transmittal Form	<input type="checkbox"/> Assignment Papers (for an Application)	<input type="checkbox"/> After Allowance Communication to Group
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<input type="checkbox"/> Affidavits/declaration(s)	<input checked="" type="checkbox"/> To Convert a Provisional Application	<input type="checkbox"/> Status Letter
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<input type="checkbox"/> Information Disclosure Statement	<input type="checkbox"/> Small Entity Statement	
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<input type="checkbox"/> Response to Missing Parts/Incomplete Application	Remarks	
<input type="checkbox"/> Response to Missing Parts under 37 CFR 1.52 or 1.53	The present patent application is based upon Provisional Application No. 60/145,730, filed on July 27, 1999, entitled SECURITY RECEIPTS MANAGEMENT SYSTEM, by Stephen G. Bodurtha, Thomas W. Lee, Satyanarayan Chada, and Mitchell M. Cox.	
SIGNATURE OF APPLICANT, ATTORNEY, OR AGENT		
Firm or Individual name	James M. Bollinger, Esq. Registration No. 32,555	
Signature		
Date	May 19, 2000	

SECURITY RECEIPTS MANAGEMENT SYSTEM

By

**Stephen G. Bodurtha, Satyanarayan Chada, Mitchell M. Cox
And Thomas W. Lee**

Statement of Related Case

The present patent application is based upon Provisional Application No. 60/145,730, filed on July 27, 1999, entitled SECURITY RECEIPTS MANAGEMENT SYSTEM, by Stephen G. Bodurtha, Thomas W. Lee, Satyanarayan Chada, and Mitchell M. Cox, the disclosure of which is incorporated herein by reference.

Field of the Invention

The present invention is directed to a system for creating and managing a novel investment instrument referred to herein as Security Receipts. In one aspect, the present invention is directed to the novel data processing systems and methods that create and manage this new class of investment instrument which permits exposure and investment in targeted baskets of underlying securities in a manner that directly replicates the experiences of owning the underlying securities. In a separate aspect of the present invention, the present invention is directed at this new class of investment instrument which gives investors the ability to buy and sell a single instrument having a unique and attractive matrix of properties which allow enhanced investment opportunities.

BACKGROUND OF THE INVENTION

The last decade has brought unprecedented appreciation in shareholder equity in the United States financial markets. This is evidenced by the explosive growth in the number and size of mutual funds, discount brokerages, equity-based retirement accounts and internet stock trading. The scope of investment participants with diverse investment goals has expanded greatly and includes professional investors and brokers, as well as retirees

investing through on-line brokers via their personal computers, employees managing their 401(k) accounts, and individual day traders.

In order to respond to the resulting increased demand for a wide range of investment products and services for equity investors, financial companies have heretofore reacted within the existing framework of investment vehicles by offering additional products and services. On the one hand, financial companies have offered pooled investment vehicles, like mutual funds, to cover many types of general and specialized investment strategies. On the other hand, financial companies have increased the choice of services available for investors through flexible investment plans, internet stock trading and modified commission structures.

Pooled investment vehicles provide investors with diversification and management, but this comes with certain trade-offs. Investors generally pay significant annual fees that typically increase with the appreciation of their investment. Additionally, it is now well known that for meaningful stretches of time, many managed mutual funds under-perform the unmanaged markets as reflected in one or more market indexes like the S&P 500. While index funds (mutual funds designed to track the performance of an index), like SPDRs, solve some of the problems faced by offering diversified exposure to an index at a cost that is lower than that of typical funds, they do not provide investors with ownership rights in the underlying securities.

Investors in pooled investment vehicles do not have ownership or control in the underlying securities to which they are exposed. As a result, investors give up investment discretion and expose themselves to potential tax liabilities as a result of trading activity in the investment vehicle by its manager or promoter. For example, if a fund manager sells highly appreciated stock in order to return money to other investors who liquidate their shares or because the fund manager has decided to change investments for another reason, the tax liability for that sale will be passed on to the remaining owners of the fund shares. This is especially problematic for new investors in the fund who will realize no gain from the prior appreciation of the stock but will be saddled with the resulting tax liability.

Flexible fee structures and automated, on-line stock purchasing abilities have given investors the opportunity to actively trade stocks, but also expose investors to greater risk. Investors can purchase single-stocks, but must make individual assessments of each stock to be purchased and in most types of brokerage accounts will be required to pay transaction fees for each stock transaction. This creates a disincentive for diversifying exposure to several stocks in each investment sector. Investors are not given the ability or the tools to effectively diversify their investment portfolio.

This diversification is very important to investors, and has driven many investors to the pooled investment vehicles described above. Over the past ten years, there has been a great proliferation of pooled investment vehicles offering exposure to all types of market sectors and investment themes.

5 There remains a need in the marketplace, however, for an investment that provides and permits flexible investing to promote risk control and diversification, while allowing investors to retain the benefits of beneficial ownership.

OBJECTS AND SUMMARY OF THE PRESENT INVENTION

10 It is an object of the present invention to provide a data processing system for creating and managing investment vehicles that permit diversified investing with full investor control and participation.

15 It is another object of the present invention to provide a method of initiating a new security in the form of a receipt that includes all the attributes of stock ownership, including voting and dividend rights.

20 It is another object of the present invention to provide a method by which a new security in the form of a receipt can be delivered in exchange for the underlying securities that the receipt represents and a method by which such underlying securities can be delivered in exchange for such receipt; in each case, such method of exchange would allow for such exchange to take place on a tax-free basis.

25 It is yet another object of the present invention to provide a method of supporting a market in a receipt corresponding to a diversified portfolio of securities, including a computer controlled trading and tracking system.

30 It is still another object of the present invention to provide a system for developing an initial basket of securities to support an investment receipt wherein said basket includes one or more securities that correspond to selected levels of trading volume and market capitalization.

 It is yet another object of the present invention to provide a computer system to periodically track trading activity in Security Receipts and prepare reports on market transactions involving said Security Receipts.

 It is a further object of the present invention to provide a novel investment vehicle corresponding to a basket of select securities that can be traded on a financial market.

 It is a further object of the present invention to provide a method for trading interests in capitalized securities by establishing a tradable security corresponding to a select portfolio

of publicly issued stocks and operating a financial market to bring together buyers and sellers of said security.

The above and other objects of the present invention are realized in a novel investment vehicle and computer system that permits commercial transactions of the vehicle in accordance with a stored protocol. The investment vehicle is a Security Receipt that is derived from a basket of underlying securities and transfers rights in the underlying securities to the holder of the receipt. These rights include essentially all the rights that shareholders receive in the securities had the investor bought the underlying shares, including voting rights, dividend income, etc. The computer system permits the creation and issuance of the Security Receipt with enhanced speed, efficiency and control. In addition, the computer system provides receipt maintenance to insure that the transferral of rights thereunder is properly implemented.

In accordance with the varying aspects of the present invention, the Security Receipt is available as a separate trading security. Trading support is thus provided for the Security Receipts and includes support for various options and future markets tied to the Security Receipt and the support needed for receipt owners to exchange their receipts for the underlying basket of securities.

The foregoing features of the present invention may be better understood by review of the following description of an illustrative example thereof, taken in conjunction with the drawings of which:

BRIEF DESCRIPTION OF THE FIGURES

Figure 1 sets forth an illustrative prior art trading environment for securities;

Figure 2 depicts a trading environment for the creation and trading of the receipts as utilized in conjunction with the methods of the present invention;

Figure 3A depicts an idealized system overview for the creation of a Securities Receipt;

Figure 3B depicts an idealized system for the management and trading of Securities Receipts;

Figure 4 is a flowchart setting forth an operational sequence for creating a basket of securities for a receipt;

Figure 5 is a flowchart setting forth an operational sequence for managing the receipts;

Figure 6 is a flowchart setting forth the manner in which receipts may be purchased and/or exchanged;

Figure 7 is a flow chart depicting system response to events such as tender offers;
and

Figure 8 is a flow chart depicting system response to events such as mergers.

DETAILED DESCRIPTION OF THE INVENTION

In overview, the present invention is directed to a system for creating and managing a new class of investment vehicles, known as Security Receipts. Security Receipts are depository receipts issued by a Trust that are intended to provide investors with a less costly way to purchase, hold, and transfer securities, both debt and equity, and preferably U.S. equities. In particular, these Security Receipts are organized to include select securities corresponding to a wide range of investment objectives. For example, a Security Receipt may be used to establish ownership rights in a basket of stocks relating to the Oil Industry – and, therefore, is considered an energy sector Security Receipt.

Security Receipts are traded on one or more established exchanges, thus providing a market for investors to purchase and sell Security Receipts. An investor who owns a Security Receipt preferably has the same rights, privileges, and obligations as the investor having beneficial ownership of the stocks underlying the Security Receipt. This includes, for example, the right of the investor to vote the common stock and to receive dividends (if declared by the issuer of the deposited security).

Keeping the above overview in mind, attention is now directed to Figure 1. This Figure is an idealized functional block diagram of a prior art securities trading system, which is nonetheless useful in understanding the novel aspects of the present invention and the role of various participants in implementing Security Receipts in the context of the present invention.

Starting with Investors 60, whose interest in common stock investing is communicated with a Broker A, 30, a bid for a security is placed on the exchange and the security is purchased (Day 1), from a second Broker B, 40. This communication may take place using, for example, personal computers (PCs) connected to one or more computer networks. Alternatively, Investor A's request to purchase and ultimately purchase may be communicated via telephone, wireless connection, or similar, with alternate forms of communication equally applicable. At this time, no funds or shares are immediately exchanged, as this will take place in the future (three days later by current convention) on the settlement day (*e.g.*, Day 4).

The sale is recorded by the broker. Here, each broker may be a Participant 20 or, otherwise, operates through a Participant. The Participants are collectively connected to a

stock clearing entity, known as the Depository Trust Co. or "DTC"; 10 in Figure 1. DTC further includes a nominee known as "Cede & Co." that acts as a record holder for securities that are traded between members of DTC. Cede & Co. uses Bank 80 for account support, and operates a records database 70 for monitoring the positions for individual securities for each of the Participants. As shown in Fig. 1, each broker conducts the transaction through its related Participant (Broker A with Participant A); as shown, this may include two different Participants 20 and 25, or a Broker may also be a Participant, or both Brokers may use the same Participant.

In the above discussion, purchase of shares in a stock of Corp. A by Investor 60 changes the positions of Broker A and Broker B by that particular transaction. In particular, Broker A increases its interest in the holdings of Corp. A stock by while Broker B's interest is reduced by a like amount so that the database reflects the increased interest of Broker A in the database records of holdings of Participant A, and the decreased interest of Broker B is reflected in the database records of the holdings of Participant B. While shown for a single security, it will be recognized that, in fact, the position adjustment for participants is done on an aggregated basis for all investors trading. The Investor's interest in the purchased securities is reflected via their respective brokerage accounts.

Continuing with Figure 1, Corp. A may declare a dividend (stock and/or cash) or seek votes on corporate affairs by its shareholders. The payment of dividends is made to the shareholders of record and this is Cede & Co. DTC distributes these dividends to its Participants and these are ultimately credited to investors' accounts maintained by each Broker.

A similar approach is undertaken with voting rights. Corp. A distributes proxy statements to Cede & Co. for release – ultimately – to the shareholder investor 60. The shareholder/investor then exercises the common share voting right by responding to the proxy ballot.

Turning now to Figure 2, the above-described conventional arrangement is re-configured for implementing the Security Receipts of the present invention. As shown in this Figure, a Trust is established, and this Trust 120, controlled by Trustee 110, issues a quantity of Security Receipts based on its ownership of a basket (a collection) of securities; for ease of discussion and in accord with the preferred embodiment, the Security Receipts represents common stock shares as traded on one of the primary United States financial markets, e.g., The New York Stock Exchange. Specifically, the securities are purchased and title is reflected at Cede & Co. in the name of Participant T, which relates the same to the

Trustee of the Trust 120. Concurrently, Trust 120 issues the corresponding Security Receipts for sale by participating brokers, *e.g.*, Brokers A and B.

As an example, an investor 60, desiring to invest in a particular industry, purchases a quantity of Security Receipts – just as the investor would a stock – from the broker via the trading exchange 50. The various ownership interests are recorded at Cede & Co. reflecting the new balance in Security Receipts between Participants A and B (who represent, respectively, selling Broker B and buying Broker A). The information is tracked and stored in database 70. The Trustee, the Broker, and/or the Participant may be the same entity, or some subset (*e.g.*, the Broker and the Participant, or the Trustee and the Participant) may be the same entity.

As dividends are paid by Corp. B, and if Corp. B is a stock that is part of the basket of securities defining the Security Receipt and held in Trust 120, Cede & Co. records payment of these dividends to the Participant T, who relates the dividends to the Trustee for the Trust. However, the Trust 120 merely returns this dividend income directly to the true owners of the Security Receipts, via Cede & Co., and through the Brokers to the investors in the Security Receipts. In actuality, positions of Cede & Co. between members are merely consolidated, with net payments provided to the Brokers representing owner-clients.

A similar process transfers voting rights from the various corporations, through Cede & Co. to the Trust 120, and ultimately to the investors in the Security Receipts, thus allowing their participation in corporate management. The distribution of such votes is handled similarly to that just described for dividend payments, except that an additional subsystem is, in the preferred embodiment, employed to track ownership of the Security Receipts at the same time ownership of the underlying securities is tracked. This ownership information is then communicated directly to all Participants so that the vote of the underlying security represented by the Security Receipt can occur at the same time as the vote of the shares outside the trust. The Participant notifies the holder(s) of the Security Receipt (the investor) of the vote and the investor provides instructions to the company how to vote the shares. In practice, a third party may communicate this information to the investor, and may receive the vote information and communicate it to the company whose underlying security is part of the Security Receipt. In this way, all of the securities (both inside the Trust and outside) can be voted at the same time.

The operation of the system of Fig. 2 for managing and trading the Security Receipts mandates a communications mechanism between the various entities identified in Figure 2 and the Trust. This communications mechanism encompasses any and all techniques for

conveying information from one place to another including, for example, wireless communications, wired communications, computer networks, fiber optics, and others.

At the start, an Initial Depositor is the initiator of the Security Receipts and is responsible for setting up the Trust, organizing the basket of securities that are used to capitalize the receipt, and is ultimately responsible for finding buyers for the Security Receipts. One part of a system according to this invention enables the creation of a Security Receipt. As shown in Fig. 3A, a Depositor 301 (and for the initial issuance, the Initial Depositor), owner of one or more different securities in the same or different amounts, deposits the entire bundle of securities with the Trust 120. The Trust issues a Receipt for this bundle of securities to Cede & Co., and identifies its ownership with a Participant. The relevant Participant thereafter identifies the broker representing the Depositor. As with a typical stock, the Securities Receipt can be held by a Participant or Broker beneficially for the Depositor. Thus, the Initial Depositor has exchanged a bundle of one or more securities for Security Receipts representing the same, and the Security Receipts can be traded in the same manner as the underlying security(ies) are traded. Additionally, the number of shares of any particular security in the Security Receipt can be a fractional quantity. Thus, a single Security Receipt may represent 5 shares of one company, 2 1/2 shares of a second company, and 7/8ths of a share of a third company.

The system further permits exchange of issued Security Receipts for the underlying securities corresponding to that Security Receipt. This is accomplished as depicted in Fig. 3A, with the distinction that the Security Receipt is surrendered to the Trust 120 by Depositor 301. The Trust cancels this Security Receipt and transfers the corresponding securities to DTC/Cede & Co., 10, with title acknowledged via Participant A and Broker A, back to Depositor 301. In this way, the system seamlessly permits low cost and efficient movement back to the original securities. By this mechanism, the market pricing of the Security Receipts are maintained within a defined amount to the market price of the underlying securities by the possibility of surrender/issue arbitrage.

In one preferred arrangement, the Initial Depositor is, or is closely affiliated with, a broker and/or a Participant in DTC. Figure 3B reflects an idealized system for managing and trading Security Receipts. This system is implemented to track, record, and enable the transactions for creating and supporting the Security Receipts. The Trustee, via a network 200 including plural workstations 210, tracks the number of securities per Security Receipt, the ownership (via the prior art system shown in Fig. 1), the aggregate Security Receipts issued by that Trustee, and the aggregate shares held in the Trust. Workstations 210 preferably include an input/output mechanism by which operators may enter information and

also by which operators may be presented with information. Workstations 210 also include an interfacing mechanism for communicating information over network 200.

The system of Fig. 3B preferably is equipped to issue receipts based on various groups of securities, or on a single security, such as listed in Table I below.

TABLE I

Pharmaceutical Industry
Internet Industry
Biotech Industry
Genetics segment of Biotech Industry
Top twenty market capitalization stocks in the S&P 500 Index

In this example, HOLDR is a trademark for a Security Receipt. An example portfolio for an Internet HOLDR is presented in Table II below:

TABLE II

AMAZON.COM INC	HEALTHCON CORP
AMERICA ONLINE INC	INFOSEEK CORP
AT HOME CORP	INKTOMI CORP
CMGI INC	LYCOS INC
CNET INC	MINDSPRING ENTERPRISES INC
DOUBLECLICK	PRICELINE.COM INCORPORATED
EBAY INC	REALNETWORKS INC
E TRADE GROUP INC	USWEB CORP
EXODUS COMMUNICATIONS INC	YAHOO INC

As baskets of securities are developed and packaged into Security Receipts, the new receipts are communicated to the other participants (brokers, banks, and the Trustee) via communication paths which, in the illustrative example of Fig. 3B, is a Communications Server 220, coupled via conventional technology to the communication medium of choice. It is to be understood that various forms of communication are within the contemplation of the invention, including any method for conveying information from one place to another, such as wireless communications, wired communications, fiber optics, internet (hypertext transfer, file transfer), and others. The Security Receipt information is transmitted to DTC, then to the Participant, and subsequently to the investor(s). On the other hand, when a Security Receipt is cancelled for the underlying security, the information flow goes essentially in the opposite direction (*e.g.*, an investor communicates to his broker to cancel a Security Receipt, which is communicated to DTC, and then to the Trustee, who eventually delivers the underlying securities to the investor in exchange for the receipt).

Figure 4 sets forth an operational sequence by which the Initial Depositor creates a Security Receipt facility (*e.g.*, typically a security or a group of securities representing a conventional or synthetic industry sector). Depending on the origin of the underlying securities, a weighting and/or methodology, and possibly other criteria, are used to determine the particular stocks, and the number of shares of each stock, for creating the Security Receipt. Thus, an Initial Depositor may deposit 10,000, 5000, and 3000 shares of three separate companies into a newly formed Trust that issues 1000 Receipt, each Receipt representing 10, 5, and 3 shares, respectively, of the underlying securities, or may issue 10,000 Receipts, each representing 1, one-half, and 3/10ths shares, respectively, of the underlying securities (*i.e.*, the latter being an example of a Security Receipt evidencing ownership of fractional shares). An Initial Depositor may also decide to create a Security Receipt of particular Internet stocks as shown above in Table II. The process begins conceptually at START block 300. At block 301, a new Issue of a Security Receipt is selected and, at block 320, this new Issue is assigned a system variable, Issue (J), where J is a counter to track Security Receipt issues. It should be understood that a completely separate entity may create a Trust that happens to have the exact same securities as the first Trust, and may create Security Receipts having the same mix (both particular securities and/or quantities of each) as the first Trustee created.

At test block 330, the processing mechanism determines if the new Issue is for an existing basket or a new basket – that is to say, whether the new Issue is for an existing collection of securities or, alternatively, for a new collection of underlying securities. If new, the processing mechanism branches to block 340 and a new basket is generated, denoted as Basket(I). At block 350, the characteristics of the basket are entered and can include security criteria, such as those listed in Table III.

TABLE III

Security Type	:	Common Stock in Internet Sector
Market Cap	:	>1 billion (US\$)
Trading Volume	:	>1 million shares/day

Continuing with Fig. 4, at block 360, the underlying particular security information is entered, denoted as Securities(I); for example, the particular securities and the specific number of shares of each security that comprise each unit of the Security Receipt (or for all of the Security Receipts in a particular basket). Next, at block 370, provisions are made for multiple basket creation. If it is desired to create a multiple basket, the program loops back to block 340; otherwise, the program continues to block 420. At block 420, the Initial

Depositor establishes a trust, hires a trustee, and arranges for the initial distribution of receipts to potential purchasers through, for example, an exchange.

Returning for a moment to block 330, if the new issue is based on an existing security basket, *i.e.*, "Yes" to the test at block 330, the system recalls and selects an existing portfolio, block 380. At block 390, an option is provided to modify the portfolio, by
5 adjusting the characteristics, Characteristics(I) block 400, and storing the new basket information, block 410. Processing continues again to block 420 as just described.

Turning now to Figure 5, the system can, and preferably does, track dividend payments and voting rights for individual shares and transfers the payments and rights to the
10 security owner, even though an owner may actually own a Security Receipt rather than owning the underlying security. In addition to dividends paid in cash and/or stock, the entity issuing the underlying security may have other distributions, including, for example, a special stock distribution, an annual or quarterly report, a special communication from the company (*e.g.*, a picture of a new chief executive officer, or of a new facility or product),
15 and the like. Processing preferably is on a periodic (*e.g.*, daily) basis and begins conceptually at start block 500. The receipt basket, Basket(I), is entered, block 510, and the owner of record is identified, block 520. Test 530 determines if a dividend payment has been received for any of the securities within Basket(I); if so, logic branches to block 540. As described above with reference to Fig. 3B, the Trust monitors the amount of each
20 security represented by a Security Receipt and the funds are released to pay the owner in accordance with the standard distribution methodology outlined in Fig. 1.

Similarly, at Test 550, issued voting rights for any of the underlying securities are detected. As described above with reference to Fig. 3B, the Trust monitors the amount of each security represented by a Security Receipt and the system then processes these by
25 sending the proxy cards to the beneficial owner in accordance with the standard distribution methodology outlined in Fig. 1. This is repeated for each Security Receipt and logic continues at block 570. It may be that a particular security used for a Security Receipt is owned only in fractional amounts; in such a case, it may be that individual Security Receipt owners will not have sufficient beneficial ownership of such shares to vote, or it may be that
30 the Trustee will vote those shares.

An important attribute of the Security Receipt is the ability of the Trust to accept further deposits of underlying securities (or bundles thereof) in exchange for a newly issued Security Receipt, or to cancel the Security Receipt in exchange for the underlying securities. As shown in Figure 6, this is accomplished by the system proprietor via access by Brokers,
35 starting by entering a Broker ID, block 610. Test 620 determines if new Security Receipts

are to be issued. This is, of course, different than buying existing Receipts from a trading exchange. If yes, logic branches to block 630 and the particular Security Receipt, Basket(I), is selected. An amount is entered (*i.e.*, the number of receipts to be created), block 640. The broker must deliver to the Trust the required amount of underlying securities, whereupon the Trust issues Receipts, block 650, as described above in Fig. 3A. Based on the new Receipts created, the Trustee must update the aggregate number of securities held by the Trust and the aggregate number of outstanding Securities Receipts issued by the Trust, block 660.

Continuing in Figure 6, Security Receipts may be cancelled in exchange for the underlying securities; this is tested for at Test 670. If an exchange is requested, the receipts are surrendered to the Trustee, block 680, the Trustee cancels the receipt, block 690, and finally the underlying securities are disbursed, block 700. Based on the cancelled receipts, the Trustee again must update the aggregate of the securities held by the Trust and the aggregate number of outstanding Securities Receipts issued by the Trust, block 710.

The above processes are actually record keeping operations wherein title changes but physical transfers are at a minimum. While presented in a sequentially controlled, hierarchial format, this is for illustrative purpose only. As will be recognized by those skilled in the art, there are obvious alternate processing regimens available for implementing the Security Receipts of the present invention, expressed in different source or object code and preferred on a variety of integrated platforms, or dispersed locations and entities.

Attached to the earlier filed Provisional Application No. 60/145,730 is an amended Form S-1 filed with the U.S. Securities and Exchange Commission, Registration Statement No. 333-78575, the disclosure of which is incorporated herein by reference. This Registration Statement is a prospectus describing a particular embodiment of the Trust-issued receipt.

After the receipt has been issued, market events may necessitate adjustment of the basket in accordance with programmed protocols. This process is illustrated in Figures 7 and 8, using a merger and tender offer as illustrative adjustment events.

Turning first to Figure 7, the system provides response to substantive transactions of securities held in the select basket, and, in particular, reacts to a tender offer for shares in a stock within the receipt. Logic conceptually starts at block 800, with the particulars of the tender offer entered at block 810 and stored in variable Vol_Offer(I). At Test 820, the system determines whether the offer is for a small stake or reflects a management buy-back of outstanding shares. If positive, logic branches to block 860, and the system processes the transaction with no modification to the Issue(J).

Continuing with Figure 7, at Test 830, the system detects whether the tender offer reflects a consummated agreement with the management of the target company. If the response is positive, logic branches to block 870, and, upon commencement of the Tender/Exchange period, the system removes the stock from the basket forming the Issue(J). The Issues's remaining shares are then rebalanced at block 880. If, however, the board opposes the tender offer, Test 850, logic branches to block 860, and the Issue(J) is not modified.

A similar program protocol exists for mergers involving stocks within the Issue, as shown in Figure 8. The merger parameters are entered at block 910, followed by the determination of whether the merger Target company, Target(I) is part of the Issue(J). If not, the system branches logic and the Issue is not modified. A positive response to Test 920 is followed by Test 930 which tests whether the merger Purchaser(I) is in the Issue(J). If so, this means both companies involved in the merger are in the Issue, and logic branches to block 990, and the system rebalances the receipt to reflect the changed values of the basket due to the merger. This is followed by system removal of Target(I), block 980.

Returning to Test 930, a negative response is followed by the determination of an all cash merger at Test 940. If yes, logic shifts to block 970 and the cash is distributed for the Target company shares. The target is then removed from the Issue(J) at 980 and logic continues 1000. If, however, in response to Test 930, the merger is less than all cash – either part cash or all shares of the purchasing company, logic continues to Test 950. At this juncture, the system determines if the purchaser is approved. System approval of a purchaser can be on a number of basis depending on the Issue administrator. One basis of approval is listing on a major exchange; additional requirements may be conformation to the Issue profile, *e.g.*, an internet business.

If approved, logic shifts to block 960, and the system accepts purchaser stock for the Target company shares, reconfiguring the Issue to include the new stock. Logic then continues as before, distributing any cash portion of the merger price, block 970, and removing the target shares from the Issue, block 980.

Although the invention has been described in detail for the purpose of illustration, it is to be understood that such detail is solely for that purpose and that variations can be made therein by those skilled in the art without departing from the spirit and scope of the invention.

What is claimed is:

1. A system for managing one or more Security Receipts, each said Security Receipt evidencing a beneficial interest in one or more underlying securities, the system comprising:

a Trustee holding the underlying securities;

5 a computer system with associated memory for storing data relating to the underlying securities and the Security Receipts;

means for generating Security Receipts based on said underlying securities;

and

10 means for (i) accepting a further deposit from a Depositor of underlying securities in exchange for one or more newly issued Securities Receipts, and/or (ii) canceling a Security Receipt in exchange for transferring the underlying securities to an owner of said Security Receipt.

2. The system of claim 1, wherein the underlying securities for a particular Security Receipt have a common characteristic.

3. The system of claim 1, comprising both means for accepting further deposits for newly issued Receipts and for canceling a Receipt in exchange for the underlying securities.

4. The system of claim 1, further comprising means for trading said Securities Receipts.

5. The system of claim 1, further comprising means permitting an owner of a Security Receipt to vote an underlying security.

6. The system of claim 1, further comprising means for distributing a dividend granted or other distribution with respect to a security underlying a Security Receipt to the owner of the Security Receipt.

7. A method for creating a tradable Security Receipt, wherein said Security Receipt is an investment instrument evidencing beneficial ownership in one or more securities, comprising:

providing a bundle of underlying securities;

5 transferring said bundle of securities to a Trustee;
 exchanging said bundle for one or more Security Receipts evidencing
ownership of the underlying securities;
 distributing dividends, if any, from said underlying securities to the owners of
Security Receipts on a *pro rata* basis; and
10 exchanging said underlying securities, or a portion thereof, upon surrender of
one or more Security Receipts evidencing ownership of the underlying securities.

8. The method of claim 7, further comprising the step of notifying owners of
Security Receipts of voting rights related to said underlying securities and soliciting votes
from said owners.

9. In combination in a tradeable security vehicle corresponding in value to a
select aggregation of underlying securities, wherein said security vehicle comprises:

5 a. dividend and voting pass-through means allowing holders thereof
corresponding rights to dividend income and ownership voting rights in said underlying
securities;

 b. vehicle exchange means for converting said tradeable security vehicle
into a select interest in said underlying securities; and

 c. vehicle arbitrage means for creating additional tradeable security
vehicles having identical characteristics at a price corresponding to said underlying
securities.

10. The tradeable security vehicle of claim 1 wherein said vehicle exchange
means comprises operation of a trustee and includes purchases and/or redemptions of
underlying securities on an Exchange.

11. The tradeable security vehicle of claim 1 wherein said vehicle arbitrage
means comprises operation of a trustee and includes accepting said underlying securities in
exchange for said corresponding security.

12. A method of trading interests in capitalized securities, said method
corresponding to the steps of:

 creating a tradeable security vehicle, corresponding in value to a portfolio of
select underlying securities having a common characteristic;

5 establishing a trustee for issuing said tradeable security vehicle, holding title
to plural securities in said portfolio of select underlying securities, and redeeming said
tradeable security vehicle and predetermined vehicle processing constraints;
 passing through to said holder of said tradeable security vehicle dividend and
ownership participation in said portfolio of underlying securities; and
10 operating an exchange having listed securities that include one or more of
said tradeable security vehicles.

13. The method of claim 4 wherein said trustee operates to provide said passing
through of dividend and ownership participation.

14. The method of claim 5 wherein said common characteristic for said
underlying securities is a business directed to Internet-based commerce.

15. The method of claim 5 wherein said trustee periodically issues and redeems
said tradeable security vehicle.

16. The method of claim 7 wherein said trustee holds title of said tradeable
security vehicle and coordinates transactions thereof through a Depository Trust Company
(DTC).

ABSTRACT OF INVENTION

A computer system for managing, creating, and support of a novel investment instrument, known as a Security Receipt. This receipt provides translation of ownership of plural underlying securities to the holder of the receipt in a seamless and efficient way. The system permits enhanced security creation, and orderly support to facilitate liquidity and market trading of the Security Receipt.

5

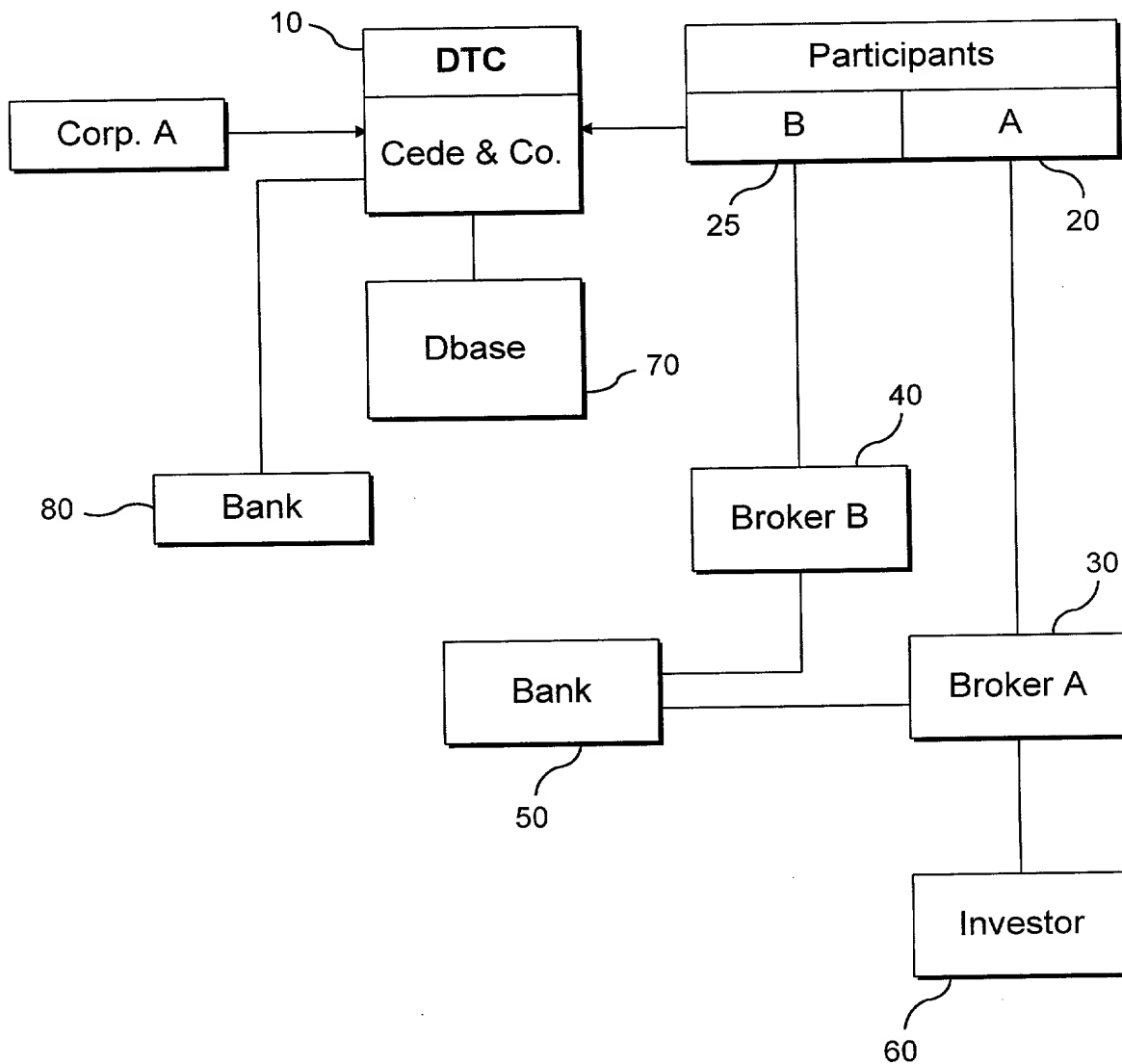


FIG. 1

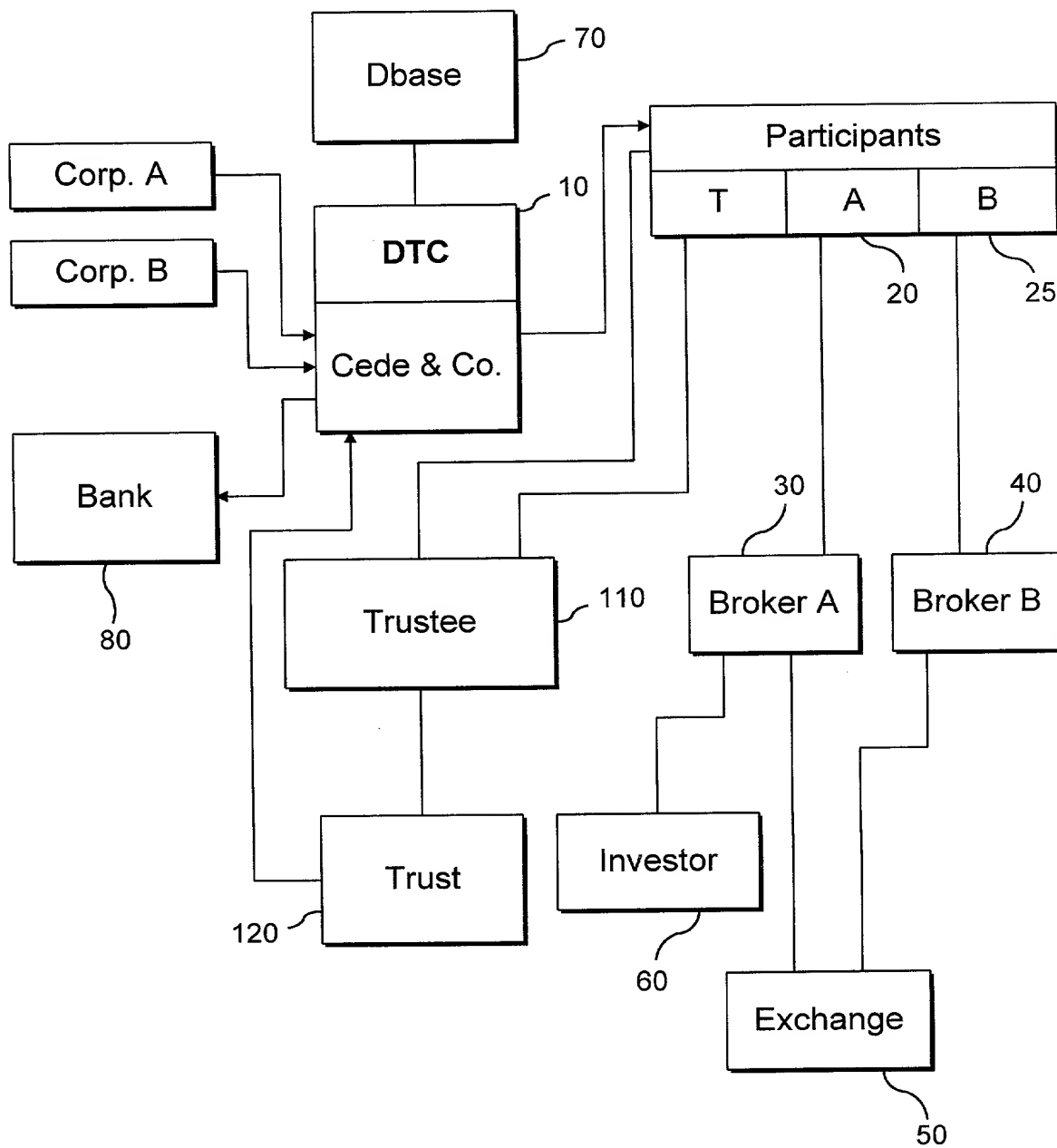


FIG. 2

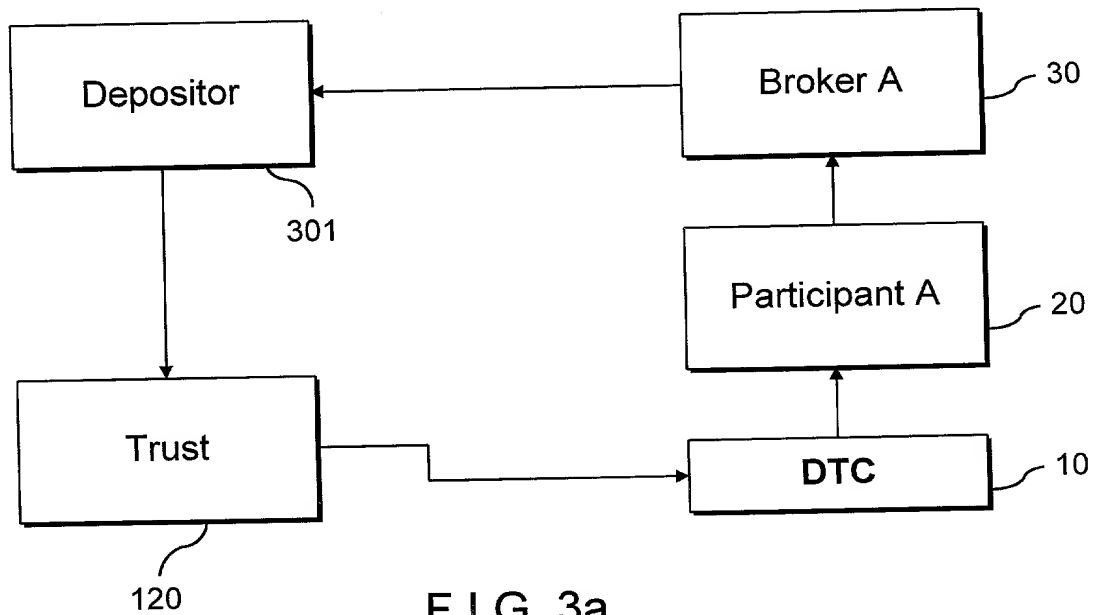


FIG. 3a

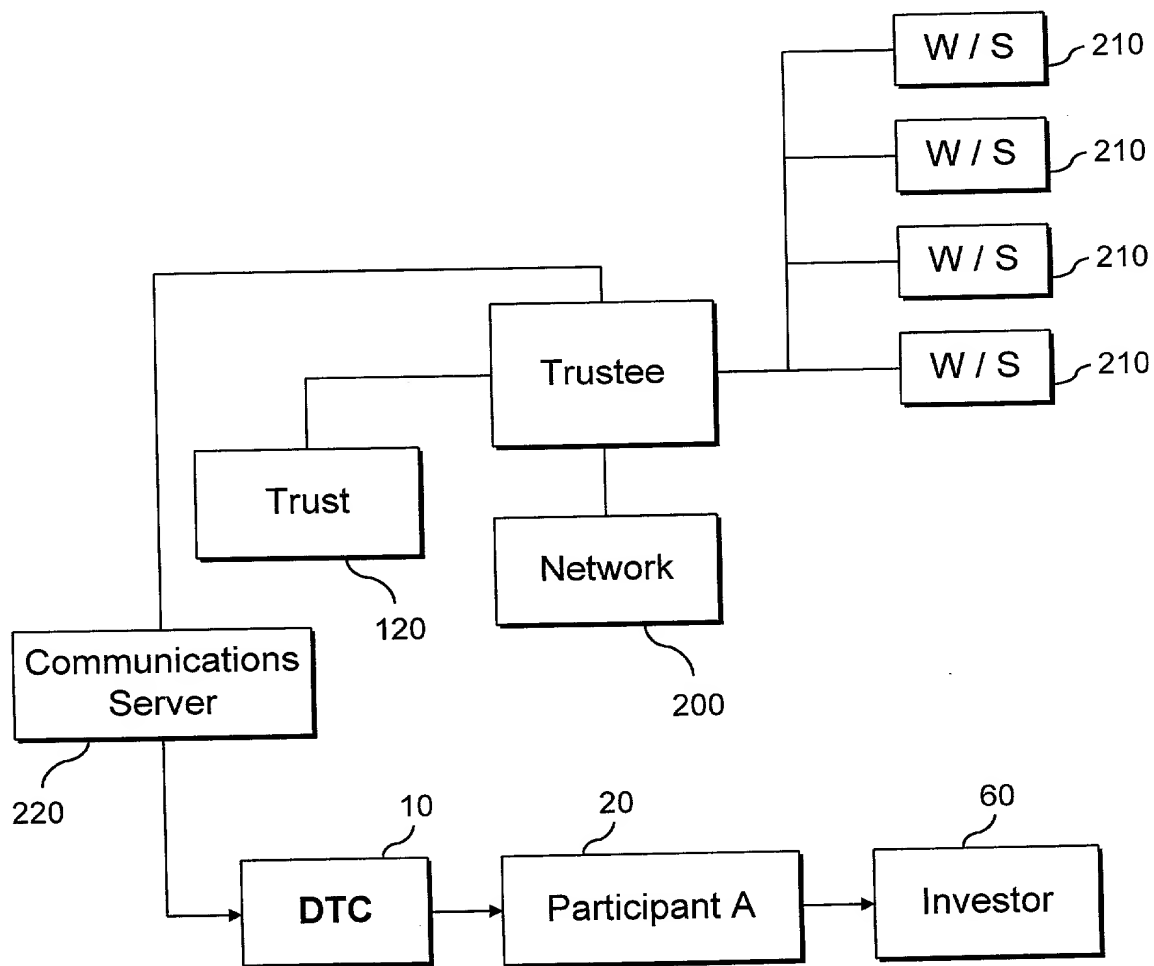


FIG. 3b

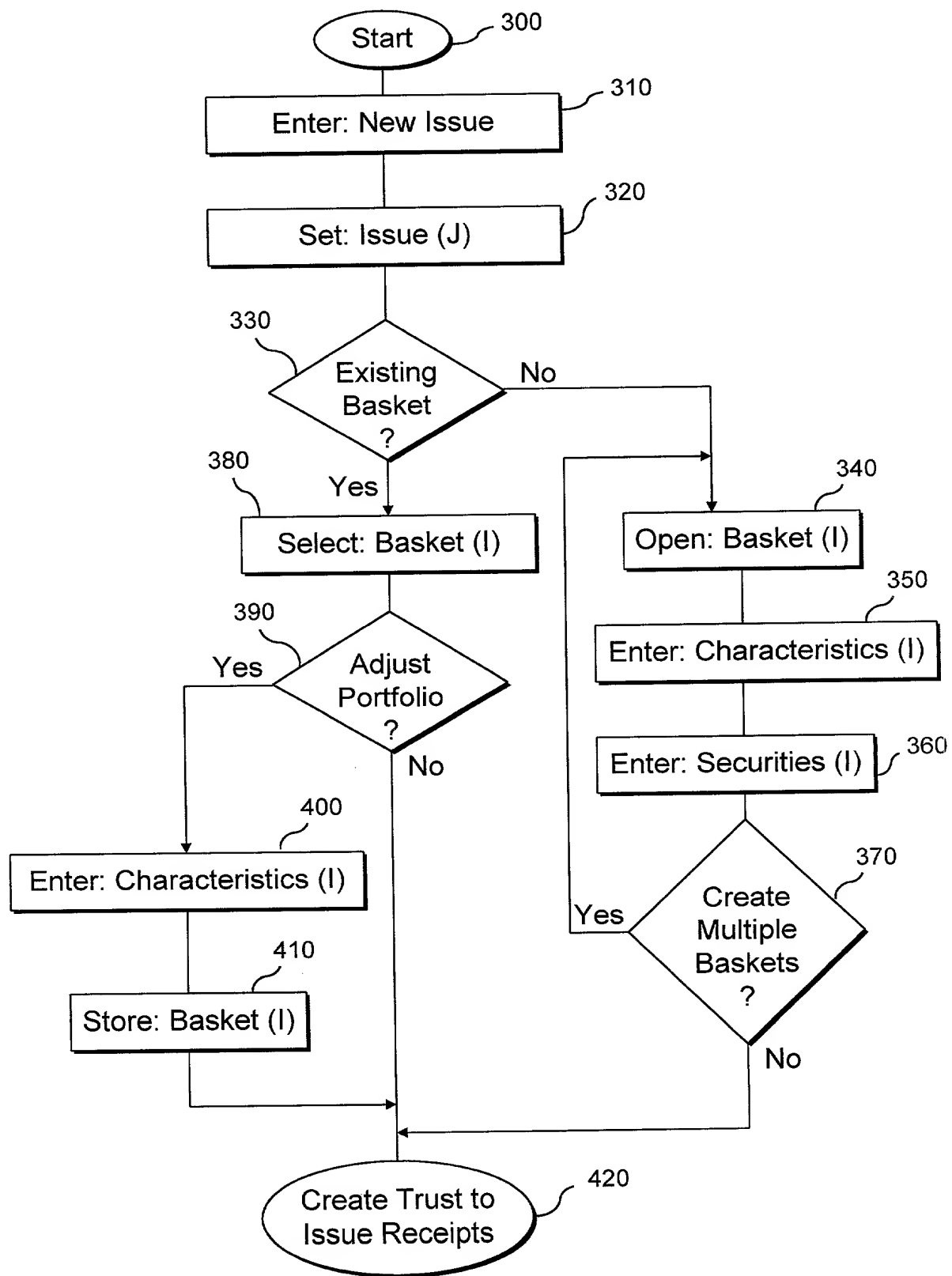


FIG. 4

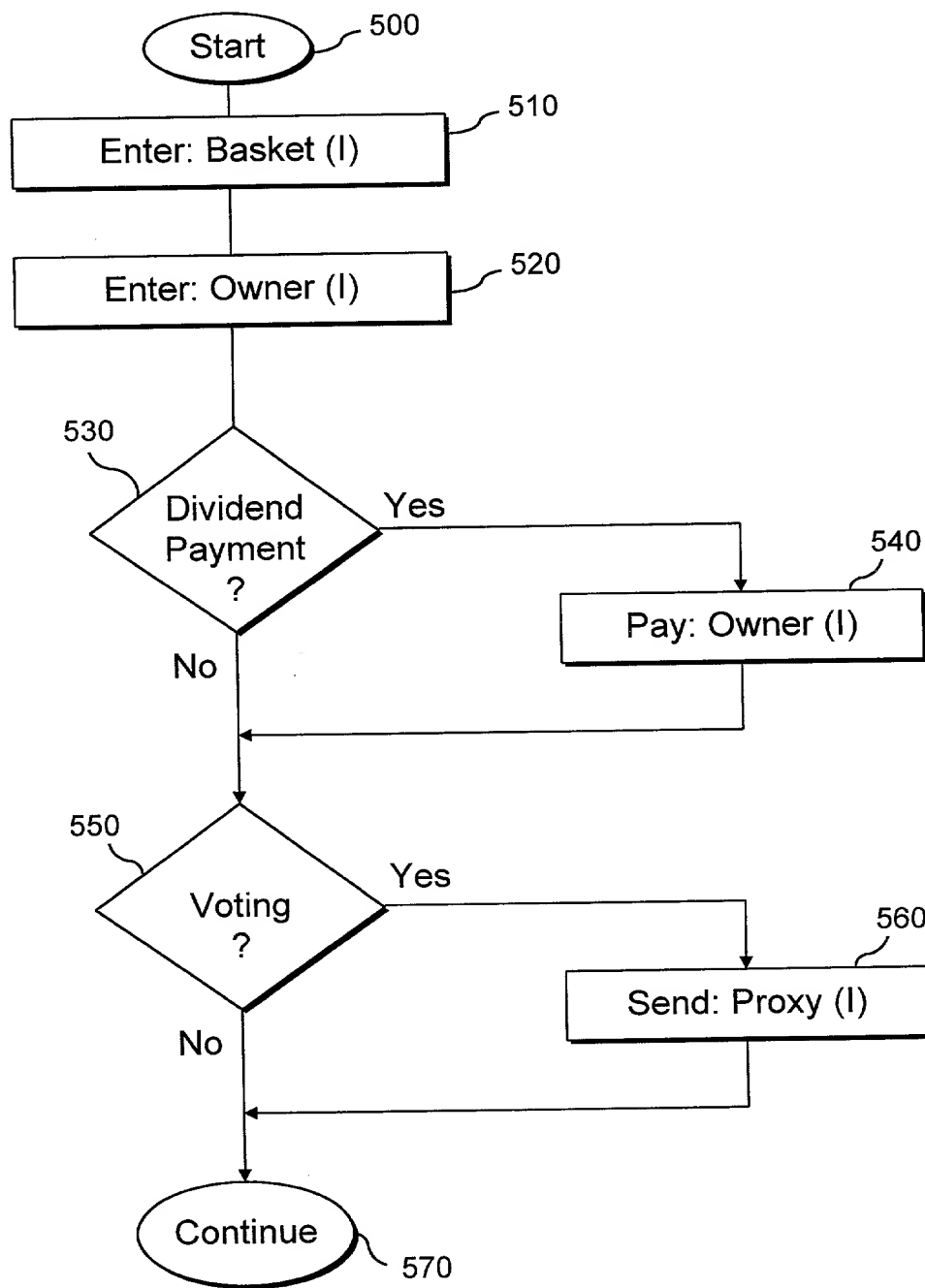


FIG. 5

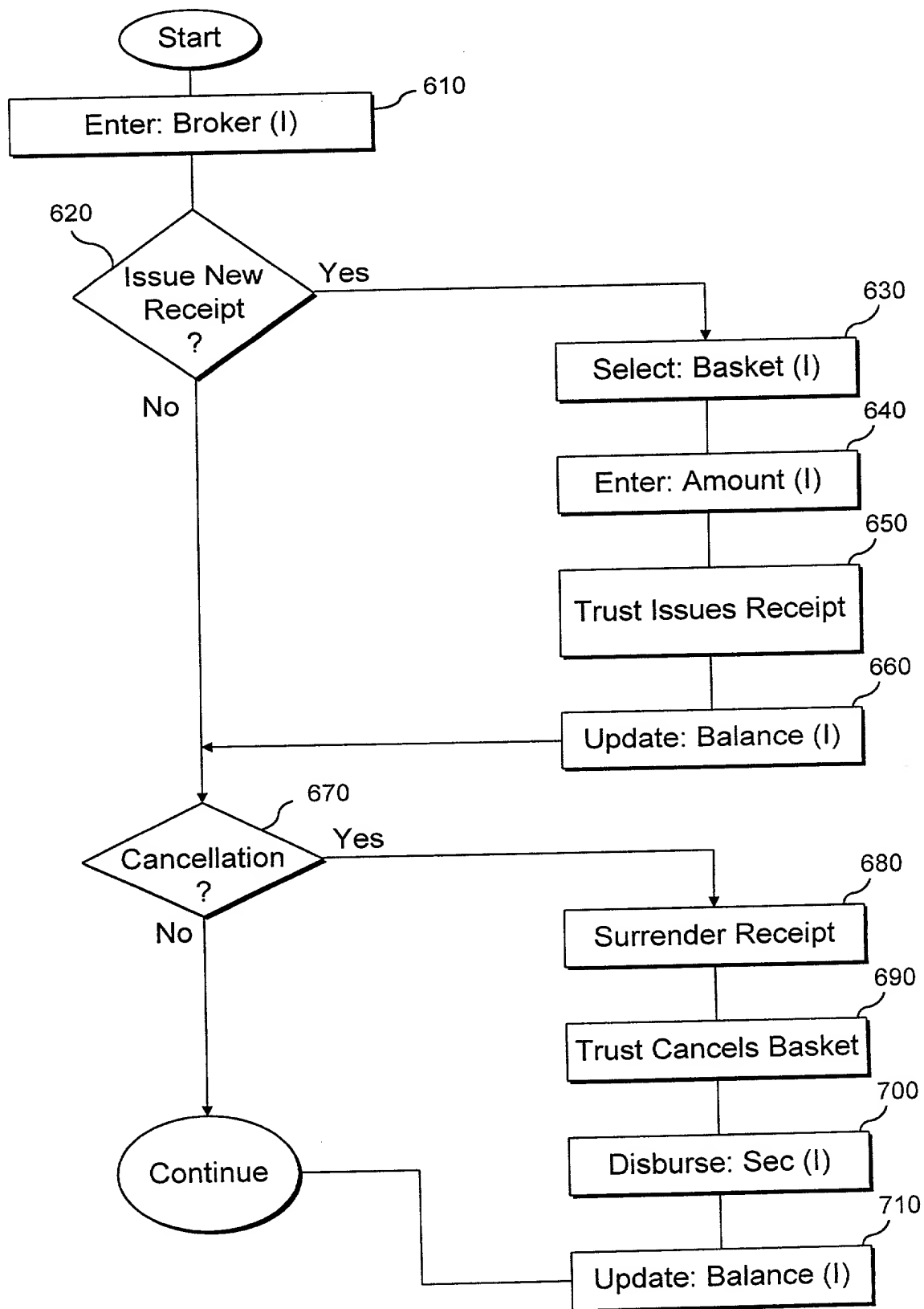


FIG. 6

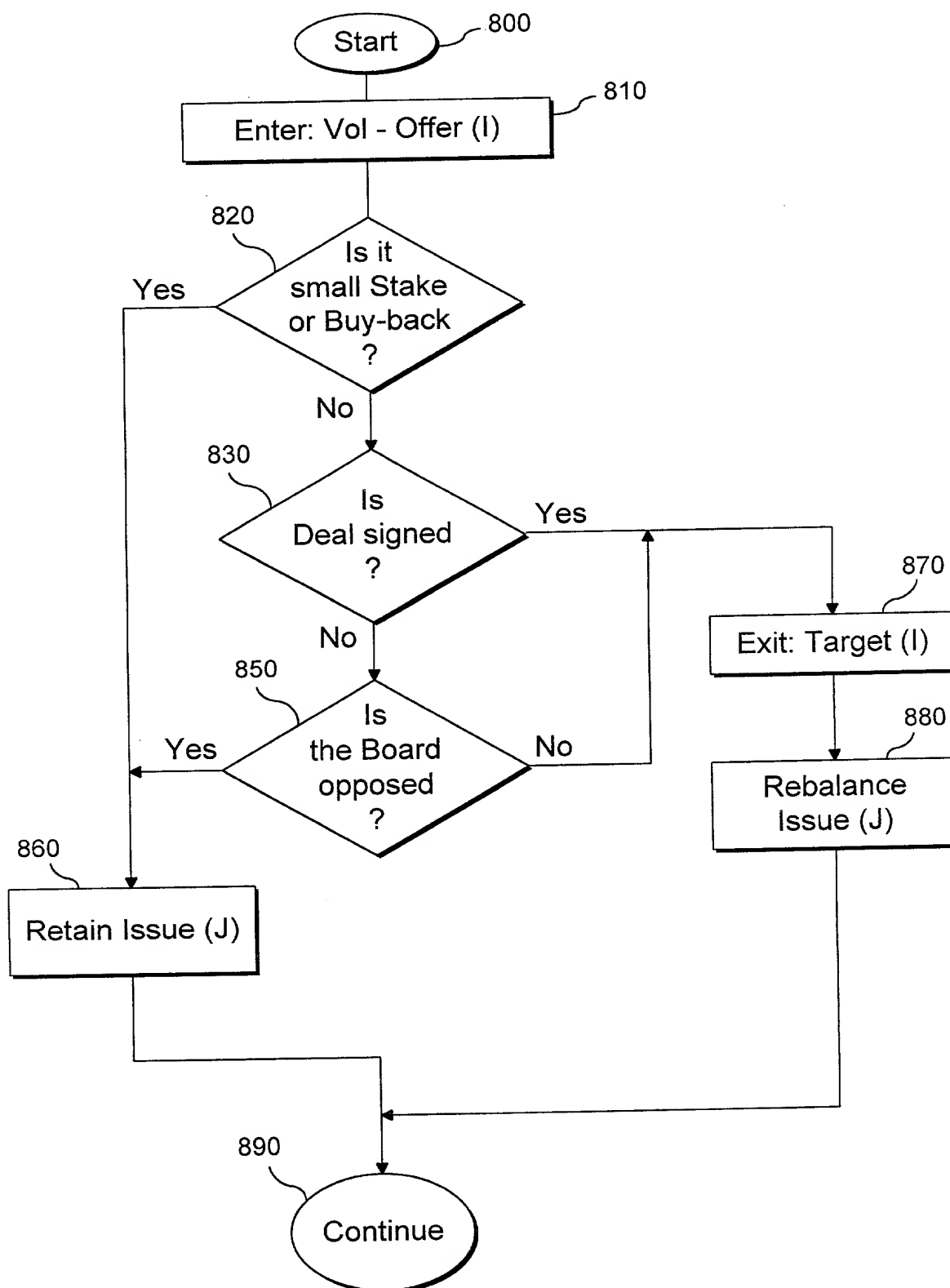


FIG. 7

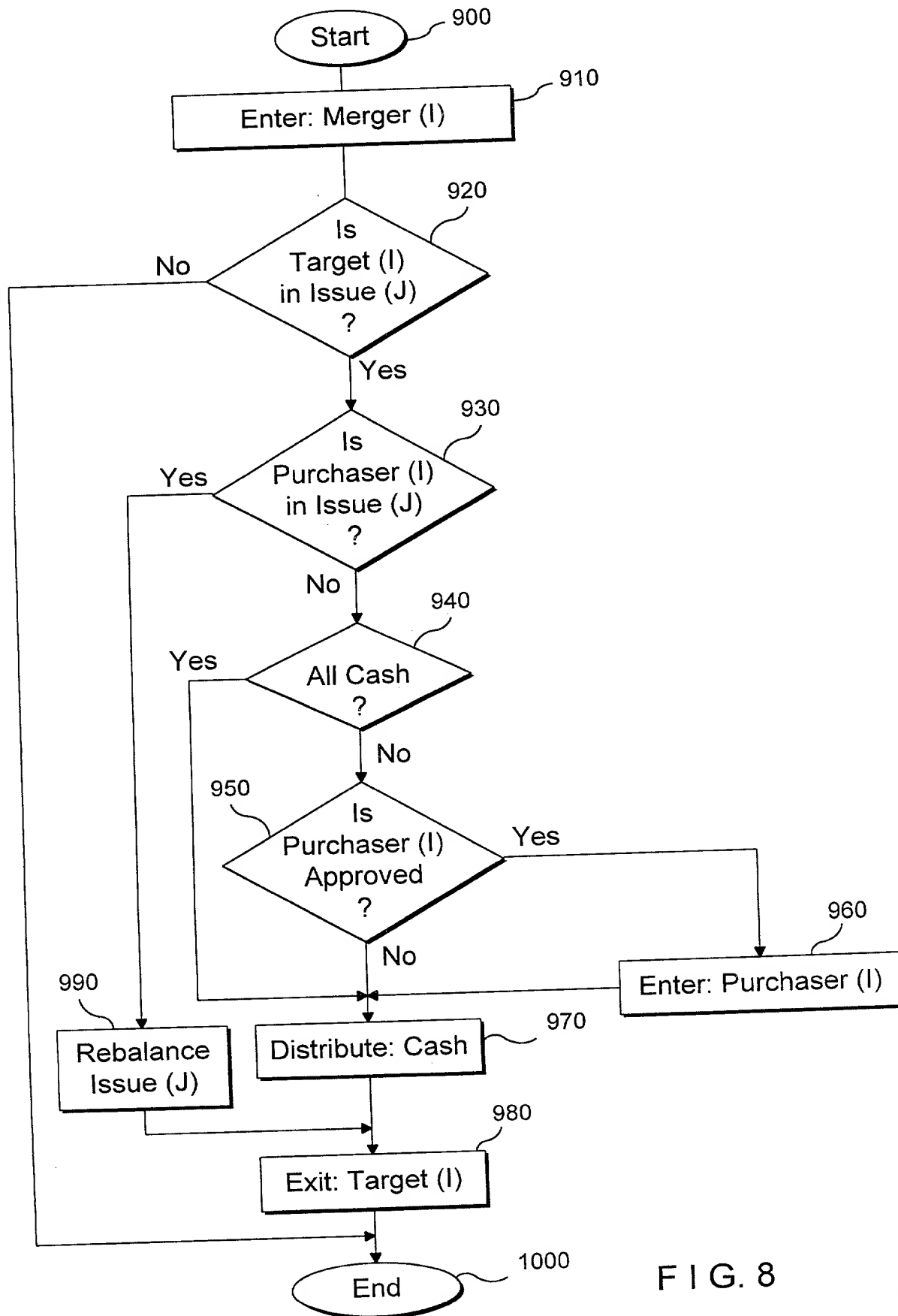


FIG. 8

DECLARATION AND POWER OF ATTORNEY FOR PATENT APPLICATION

As a below named inventor, I hereby declare that:

My residence, post office address and citizenship are as stated below next to my name,

I believe I am an original, first and joint inventor of the subject matter which is claimed and for which a patent is sought on the invention entitled

SECURITY RECEIPTS MANAGEMENT SYSTEM

the specification of which

☒ is attached hereto.
☐ was filed on _____ as
Application Serial No. _____
and was amended on _____
(if applicable)

I hereby state that I have reviewed and understand the contents of the above-identified specification, including the claims, as amended by any amendment referred to above.

I acknowledge the duty to disclose information which is material to the examination of this application in accordance with Title 37, Code of Federal Regulations, §1.56(a).

Priority Claim: I hereby claim priority under 35 U.S.C. § 119, § 120, § 121, and/or § 365 as applicable to the following application(s): 60/145,730, filed on July 27, 1999.

POWER OF ATTORNEY: As a named inventor, I hereby appoint the following attorneys to prosecute this application and transact all business in the Patent and Trademark Office connected therewith, HOPGOOD, CALIMAFDE, KALIL & JUDLOWE LLP, a firm consisting of Roy C. Hopgood, Reg. No. 15,245; John M. Calimafde, Reg. No. 16,895; Eugene J. Kalil, Reg. No. 16,686; Stephen B. Judlowe, Reg. No. 21,049; Francis J. Murphy, Reg. No. 24,537; Dennis J. Mondolino, Reg. No. 27,148; Ira B. Winkler, Reg. No. 29,223; James M. Bollinger, Reg. No. 32,555; Brian P. Murphy, Reg. No. 34,986, and Bradley N. Ruben, Reg. No. 32,058 at that firm.

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(continued on next page)

I hereby declare that all statements made herein of my own knowledge are true and that all statements made on information and belief are believed to be true; and further that these statements were made with the knowledge that willful false statements and the like so made are punishable by fine or imprisonment, or both, under Section 1001 of Title 18 of the United States Code and that such willful false statements may jeopardize the validity of the application or any patent issued thereon.

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